



OFFICE OF INSPECTOR GENERAL

LIMITED SCOPE AUDIT REPORT

**ON SELECTED
NEA GRANTS TO**

Association of Performing Arts Presenters, Inc.

Washington, D.C.

REPORT NO. LS-12-02

August 03, 2012

REPORT RELEASE RESTRICTION

In accordance with Public Law 110-409, The Inspector General Act of 2008, this report shall be posted on the National Endowment for the Arts (NEA) website not later than three (3) days after it is made publicly available with the approval of the NEA Office of Inspector General. Information contained in this report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public. Furthermore, information contained in this report should not be used for purposes other than those intended without prior consultation with the NEA Office of Inspector General regarding its applicability.

INTRODUCTION

BACKGROUND

The Association of Performing Arts Presenters (APAP) is a non-profit organization, based in Washington, DC. APAP is the national service and advocacy organization that is dedicated to developing and supporting the performing arts presenting field and the professionals who work within it. APAP works to effect change through advocacy, professional development, resource sharing, and civic engagement.

OBJECTIVE, SCOPE, AND METHODOLOGY

Limited scope audits involve a limited scope review of financial and non-financial information of grant recipients to ensure validity and accuracy of reported information, and compliance with Federal requirements. The objective of this limited scope audit by the National Endowment for the Arts (NEA) Office of Inspector of General (OIG) was to determine whether the:

- grantee fulfilled the financial and compliance requirements as set forth in the grant awards;
- total project costs claimed under the grants were reasonable, allocable, and allowable; and
- required match was met on NEA grant funds.

Our audit was conducted in accordance with the *Government Auditing Standards* (2011), issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. The "Standards" require that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions. We evaluated the recipient's compliance with the U.S. Office of Management and Budget (OMB) and NEA guidance.

During the period under review, APAP had nine NEA grants active with awards totaling \$474,400. We reviewed seven of the nine grants in which NEA funds had been drawn down and costs had been reported. We also reviewed one of the nine grants in which NEA funds had not been drawn down and costs had not been reported.

PRIOR AUDIT COVERAGE

NEA OIG conducted an evaluation and issued a Financial Management System and Compliance Evaluation report (SCE-12-03) on Federal grants awarded to APAP. During the evaluation, we reviewed two of the nine grants that were open and/or closed within the last three years. We concluded that APAP did not comply with the financial management system and recordkeeping requirements established by OMB and NEA for federal awards.

Due to the significant issues that were found during the evaluation, we determined that a limited scope audit should be performed on the remaining grants under the scope period. For its ARRA Grant No. 09-5488-7240, APAP did not separately identify Recovery Act expenditures in its financial management system and did not maintain personnel activity reports. For its NEA Grant No. 10-5400-7165, APAP did not separately identify expenditures by specific grant award in its financial management system. APAP also included costs incurred outside of the grant period on its final Federal Financial Report (FFR). Furthermore, APAP did not have the required Section 504 self-evaluation on file.

As of our exit conference on June 28, 2012, the most recent independent auditor's report on APAP is as of June 30, 2011. The audit was conducted by SB & Company, LLC, an independent CPA firm, which issued an unqualified (clean) opinion. APAP was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF AUDIT

Our limited scope audit concluded that APAP did not comply with the financial management system and recordkeeping requirements established by OMB and NEA for the eight NEA awards reviewed. APAP did not identify costs by specific grants in its accounting system. APAP reported costs based on budgeted amounts and not actual amounts. In addition, APAP did not document the methodology for allocating costs to NEA awards and did not maintain personnel activity reports. Details are presented in the narrative below.

FINANCIAL MANAGEMENT

DOCUMENTATION OF FEDERAL AWARDS

APAP did not separately identify costs by specific award in its financial management system for any of the NEA awards reviewed. APAP's financial management system identifies costs by projects. When reviewing the general ledger detail provided by APAP, we found multiple NEA awards, as well as costs for other APAP programs, under one project.

NEA's *General Terms* incorporates OMB's Circular A-110 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations), which addresses the requirement to have an adequate financial management system. The *General Terms* states:

There can be no overlapping project costs between Federal awards. Therefore, separate accounting records must be maintained for each award. OMB Circular A-110 (2 CFR 215), Section 2, and the "Common Rule," Section 1157.20, as applicable, establishes standards for financial management systems of recipients (i.e., accounting systems, internal controls, allowable costs, cash management, etc.). The financial management systems of recipient organizations and their subrecipients must meet these standards.

APAP did not have policies and procedures in place to ensure that accounting records are maintained separately for each award. Without policies and procedures in place that would allow expenditures of grant awards to be segregated, APAP is not able to adequately identify specific grant award expenditures.

As a result of not maintaining separate accounting records for each award, we were unable to determine costs by NEA award and could not perform costs transaction testing. Therefore, we questioned all costs claimed to NEA awards, in the amount of \$709,585, which could result in a potential refund, in the amount of \$354,000, to NEA. Details are presented below:

NEA Grant No.	Award Amount	Amount Claimed	Potential Refund
08-3200-7151	\$ 20,000	\$ 40,000	\$ 20,000
08-5400-7159	90,000	185,600	90,000
09-5400-7117	75,000	166,100	75,000
09-5400-7256 ¹	29,400	53,400	29,400
09-5400-7258 ²	20,000	20,000	20,000
10-3200-7286	45,000	91,911	45,000
10-5400-7165	75,000	152,574	75,000
11-5400-7144 ³	70,000	0	0
TOTAL	\$424,400	\$709,585	\$354,000

APAP officials subsequently provided NEA OIG with a newly developed chart of accounts that separately identifies NEA awards. We reviewed and submitted the documentation to NEA Management for a final decision. Based on the documentation provided, management accepted the allowable costs charged to the awards. Therefore, we are not questioning costs charged to the awards and no refund is due.

We recommend that APAP provide documentation to demonstrate that separate accounting records, in accordance with its new chart of accounts, are maintained in its financial management system. We also recommend that APAP develop and implement written policies and procedures to separately identify costs by specific award in its financial management system.

REPORTED EXPENDITURES

APAP reported costs based on budgeted amounts and not actual costs. APAP did not report actual costs for Grant Nos. 08-3200-7151, 08-5400-7159, 09-5400-7117, 09-5400-7256, and 09-5400-7258.

¹ Only \$24,000 had a 1:1 matching requirement.

² Did not have a matching requirement.

³ Extended to 12/31/12 and costs had not been claimed at the time of the audit.

APAP was unable to provide supporting documentation used to determine total outlays reported on its final financial reports. The expenditure reports extracted from APAP's financial system during our review were different from the total outlays reported for each award. To ensure accurate reporting of grant costs, an organization is required to maintain worksheets and/or separate accounts in the ledger or subsidiary ledger for each grant.

NEA's *General Terms* states:

The FFR is used to verify that the required match has been met. Ensure that the amounts reported on your FFR are based on actual allowable project expenditures and can be easily reconciled to your accounting records. Unallowable costs, such as fundraising, receptions, etc. cannot be included in these amounts.

We recommend that APAP develop and implement written policies and procedures to ensure that actual expenditures are reported on its FFRs.

ALLOCATION METHOD

APAP could not provide documentation for the methodology used to allocate costs to the NEA Grant No. 09-5400-7256. From review of the general ledger detail, we noted that indirect costs were allocated to the grant at a rate of 25%. According to APAP officials, it was estimated that approximately 25% of conference-related telecommunications overhead was applicable to this NEA award.

According to OMB Circular A-110, Subpart C, 21.b.6, recipients' financial management systems shall provide for:

Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

The allocated costs are included in the accepted questioned costs under the Documentation of Federal Awards section. Therefore, we are not questioning the allocated costs charged to the award and no refund is due.

We recommend that APAP develop and implement written policies and procedures to ensure the methodology for the allocation of costs charged to NEA awards is documented.

PERSONNEL ACTIVITY REPORT

APAP did not maintain personnel activity (time and effort) reports for the salary costs charged to NEA Grant Nos. 08-5400-7159 and 09-5400-7117. Personnel activity reports were required for employees whose salaries and fringe benefits were charged, in whole or in part, to these NEA awards.

NEA's *General Terms* states:

The NEA requires formal personnel activity reports (also known as "time and effort" reports) for any employee whose salary is charged, in whole or in part, to either the award or the matching funds if:

- **your award is \$50,000 or greater, or**
- **you are on an alternative method of funding (as noted in your award document or the Inspector General's audit follow-up report).**

APAP did not have policies and procedures in place to ensure that personnel activity reports were maintained for salary costs charged to NEA awards, if required. Without personnel activity reports, employees' time and effort charged to the award cannot be identified.

As a result of not maintaining personnel activity reports, we questioned salaries and fringe benefit costs charged to the awards. However, the salaries and fringe benefit costs are included in the accepted questioned costs under the Documentation of Federal Awards section. Therefore, we are not questioning personnel costs charged to the awards reviewed and no refund is due.

Subsequent to our review, APAP submitted a copy of its revised timesheet which includes the allocation of time and effort as required by NEA's *General Terms*.

We recommend that APAP develop and implement written policies and procedures to ensure that individual personnel activity reports are maintained, if required, by NEA's *General Terms*.

EXIT CONFERENCE

An exit conference was held with APAP officials on June 28, 2012. APAP officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that APAP:

1. Provide documentation to demonstrate that separate accounting records, in accordance with its new chart of accounts, are maintained in its financial management system.
2. Develop and implement written policies and procedures to separately identify costs by specific award in its financial management system.
3. Develop and implement written policies and procedures to ensure that actual expenditures are reported on its FFRs.

4. Develop and implement written policies and procedures to ensure the methodology for the allocation of costs charged to NEA awards is documented.
5. Develop and implement written policies and procedures to ensure that individual personnel activity reports are maintained, if required, by NEA's *General Terms*.